

**PUBLIC DISCLOSURE**

October 2, 2002

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**WEMELCO CREDIT UNION**

**174 BRUSH HILL ROAD  
WEST SPRINGFIELD, MA 01089**

**DIVISION OF BANKS  
ONE SOUTH STATION  
BOSTON, MA 02110**

<p><b>NOTE:</b> This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
--

## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **WEMELCO CREDIT UNION** prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

### **INSTITUTION'S CRA RATING: This institution is rated " Satisfactory "**

A CRA rating of "Satisfactory" is assigned. An industrial institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its membership, including low and moderate-income members, in a manner consistent with its resources and capabilities.

This examination was conducted utilizing three performance criteria for small institutions that are industrial in nature and which identify their membership as their assessment area. These criteria include. 1) Average Loan to Deposit (Share) ratio; 2) Lending to Borrowers of Different Incomes; and 3) Fair Lending.

The credit union's average net loan-to-deposit (share) ratio for the previous four semi-annual periods is 30.2 percent and meets the standards for satisfactory performance at this time.

Analysis of the credit union's lending activity by borrower income revealed that 12.0 percent of real estate-related loans and 10.4 percent of a consumer loan sample were granted to low and moderate-income borrowers. The credit union was found to meet the standards for satisfactory performance in this criterion.

The credit union's fair lending performance is also considered to meet the standards of satisfactory performance.

When determining the overall rating, factors including the credit union's size, resources and staff limitations were considered.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

WEMELCO Credit Union is a Massachusetts state-chartered credit union incorporated on September 21, 1923. The credit union was established to serve the credit needs of the employees of the Western Massachusetts Electric Company and its affiliates. The credit union's sole office is located at 174 Brush Hill Avenue, West Springfield, Massachusetts. The office is part of the Western Massachusetts Electric Company facilities located at this address. Office hours are from 8:00AM to 4:30PM Monday through Friday. ATM service is not available, however the credit union issues ATM cards and members are given 8 free ATM transaction monthly.

As of June 30, 2002, the institution's assets totaled \$36.4 million, with total loans representing \$9.1 million or 25 percent of total assets. The following table depicts the credit union's loan portfolio composition based on the June 30, 2002, NCUA Call Report of Condition.

<b>LOAN PORTFOLIO COMPOSITION</b>		
<b>LOAN TYPE</b>	<b>\$ AMOUNT (000's)</b>	<b>%</b>
New and Used Vehicle	4,441	48.5
Second Mortgage Loans	3,360	36.7
Credit Card	629	6.8
Personal Loans	462	5.0
Other Loans	261	2.8
First Mortgage Loans	18	0.2
<b>TOTALS</b>	<b>9,171</b>	<b>100%</b>

New and used vehicle loans comprise 48.5 percent of the entire loan portfolio, while the next largest product is second mortgage loans with 36.7 percent. Credit card lines of credit and personal loans represent 6.8 percent and 5.0 percent, respectively, of the loan portfolio. First mortgages and other loans make up the remainder of the portfolio representing only 3.0 percent of the dollar volume of loans outstanding.

Although the credit union has diversified its loan portfolio to include second mortgages and home equity lines of credit, its lending philosophy and policy remain consumer-oriented in terms of meeting the diverse credit needs of its membership, particularly the need for small loans. As of June 30, 2002, credit card lines and unsecured personal loans numbered 867 lines and 163 loans, respectively. Even though these loan products represent only 1.8 percent of the loan portfolio by dollar amount, these small loan groups represent 61.2 percent of the number of loans outstanding.

Competition within the credit union's assessment area includes a variety of community based credit unions, industrial credit unions, small loan companies and community banks. Furthermore, WEMELCO Credit Union directly competes with Dutchpoint Credit Union, which is based in the State of Connecticut and also serves the same employee base. Given its asset size and financial capacity, WEMELCO Credit Union has been successful in helping to meet the credit needs of its membership.

The Division of Banks last conducted a CRA exam on November 16, 1998, which resulted in the WEMELCO Credit Union receiving a "Satisfactory" Community Reinvestment Act (CRA) rating.

### **Description of Assessment Area**

The Community Reinvestment Act requires that each financial institution identify one or more assessment area(s) within which the institution's record of helping to meet community credit needs is evaluated. Under the Massachusetts CRA Regulation 209 CMR 46.41(8) a credit union whose membership by-law provisions are not based on residence may delineate its membership as its assessment area. WEMELCO Credit Union, which is an industrial credit union, has a membership by-law provision based primarily on employment.

Consequently for the purpose of this evaluation, the credit union's membership by-laws delineate the institution's assessment area(s).

WEMELCO Credit Union's by-law states: "Membership in this corporation is limited to those who are employees or retirees of the Western Massachusetts Electric Company of affiliated companies (for purposes hereof any corporation with more than 51 percent of the outstanding stock of which is owned by Northeast Utilities shall be deemed affiliated with Western Massachusetts Electric Company), employees or retirees of the WEMELCO Credit Union and their family members as listed in Section 1-B, and former employees of Western Massachusetts Electric Company or affiliated Companies, and the WEMELCO Credit Union, who were in good standing at the time of termination. Persons not eligible for membership may have joint accounts with members of the Credit Union for the purpose of deposit and withdrawal only".

WEMELCO Credit Union has 2,832 current members and estimates it potential members at 8,000. Among the current members, company employees represent about 33.4 percent of membership, retirees and former employees about 25.6 percent and family members represent approximately 41.0 percent.

## **PERFORMANCE CRITERIA**

### **1. LOAN TO SHARE ANALYSIS**

The first criterion evaluated is the credit union's average net loan to deposit (share) ratio. The average net loan to total share ratio over the previous 4 semi-annual periods was determined to be 30.2 percent and is considered to meet the standards for satisfactory performance.

The analysis compared net loans to total share figures from the institution's NCUA Call Report of Condition for four semi-annual periods. The periods reviewed covered December 31, 2000 to June 30, 2002.

<b>LOAN TO DEPOSIT (SHARE) ANALYSIS</b>			
<b>PERIOD</b>	<b>NET LOANS</b>	<b>SHARES</b>	<b>RATIO</b>
December 2000	\$9,451,309	\$28,329,370	33.4%
June 2001	\$8,988,727	\$30,276,192	29.7%
December 2001	\$8,895,195	\$30,428,972	29.2%
June 2002	\$9,052,254	\$32,031,636	28.3%

As the above table indicates, the credit union's net loan to share ratio has been steadily decreasing over the period reviewed. The ratio has gone from 33.4 percent as of the end of December, 2000 to 28.3 percent as of June, 2002. The low ratio is the result of the decline in net loans, accompanied by an increase in the share balances during that time. (The period ending June, 2002 is a deviation from this trend, demonstrating an increase in loans, but also however, a proportionately greater increase in share balances.)

Wemelco Credit Union is an active lender. It originated 93 loans totaling \$4.5 million in 2000; 328 loans totaling \$3.8 million in 2001 and 230 loans totaling \$3.5 million YTD 2002. Nevertheless it historically has exhibited a low loan to share ratio.

The following table provides net loan to deposit (share) ratios for comparative industrial credit unions. The ratios shown are calculated from NCUA Call report figures as of June 30, 2002. These credit unions range in asset size from \$36 million to \$76 million.

<b>COMPARATIVE LOAN TO SHARE RATIOS</b>	
Chicopee Municipal Employees Credit Union	21.4%
Monsanto Employees Credit Union	38.3%
<b>WEMELCO Credit Union</b>	<b>28.3%</b>

As the above table indicates, WEMELCO Credit Union's loan to share ratio is within range of other similarly-situated credit unions. In summary, the net loan-to-share ratio appears to be moderately low but adequate given the credit union's scope of operation.

Based on the above information and WEMELCO Credit Union's capacity to lend, its asset size, and limited resources, the credit union's loan to share ratio meets the standards for satisfactory performance.

## **2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)**

This criterion evaluates an institution's record of lending within a defined geographic assessment area. The Massachusetts CRA Regulation 209 CMR 46.00 allows a credit union whose membership is not based on residence to define its assessment area as its membership. WEMELCO Credit Union has elected to define its assessment area in this manner. Therefore, no evaluation of geographic performance factors was conducted.

## **3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS**

The third performance criterion evaluates the extent to which the institution lends to borrowers of different income levels, particularly borrowers of low and moderate income within its membership. Both real estate-related and consumer lending activities were analyzed to determine the institution's performance. The credit union's performance under this criterion was found to be reasonable and to meet standards for a satisfactory performance.

The distribution of real estate related loan originations and personal loan originations was reviewed and compared to the median Family Household Income (FHI) for the Metropolitan Statistical Area (MSA) in which the property is located (or the members resides) to determine borrower income levels. By definition, income is defined as low income- below 50 percent of median income; moderate-income- between 50 and 79 percent of median income; middle-income-between 80 and 119 percent of median income; and upper-income- at 120 percent or more of median income.

The majority of members reside within the Springfield, MA. Metropolitan Statistical Area (MSA) however; many reside outside the area in "Non-MSA" towns located in Franklin/Berkshire Counties. The Springfield, MA. MSA Median Family Household Income (FHI) for 2000 was \$47,500, 2001 was \$49,700 and 2002 was \$50,700. The Non-MSA Median Family Household Income (FHI) for 2000 was \$48,000, 2001 was \$50,500 and 2002 was \$52,100.

### **Real Estate Related Lending**

WEMELCO Credit Union granted 19 second mortgages totaling \$677,000 in 2000; 9 real estate related loans totaling \$295,000 in 2001, and 22 real estate related loans totaling \$840,000 in Y-T-D 2002.

The information included in the table below indicates that, by number, 12.0 percent of the loans were made to moderate-income members, while the remaining loans representing 88.0 percent were made to middle- and upper-income members.

#### Real Estate Related Loans by Income of Borrower by Number

% MEDIAN INCOME	2000		2001		Y-T-D 2002		TOTAL	
	#	%	#	%	#	%	#	%
<50%	0	0	0	0	0	0	0	0
50% - 79%	3	15.7	2	22.2	1	4.5	6	12.0
80% - 119%	4	21.1	1	11.1	4	18.2	9	18.0
120% >	12	63.2	6	66.7	17	77.3	35	70.0
<b>TOTAL</b>	<b>19</b>	<b>100%</b>	<b>9</b>	<b>100%</b>	<b>22</b>	<b>100%</b>	<b>50</b>	<b>100%</b>

Source: HMDA/LAR Data 2000 - Y-T-D 2002

The table below indicates that, by dollar amount, 10.4 percent of the loans were to moderate-income members and the remaining loans representing 89.6 percent were to middle- and upper-income members.

#### Real Estate Related Loan Originations by Income of Borrower by Dollar Amount

% MEDIAN INCOME	2000		2001		Y-T-D 2002		TOTAL	
	\$(000)	%	\$(000)	%	\$(000)	%	\$(000)	%
<50%		0.0	0	0.0	0	0.0	0	0.0
50% - 79%	107	15.8	58	19.7	25	3.0	190	10.4
80% - 119%	153	22.6	37	12.5	186	22.1	376	20.8
120% >	417	61.6	200	67.8	629	74.9	1,246	68.8
<b>TOTAL</b>	<b>677</b>	<b>100</b>	<b>295</b>	<b>100</b>	<b>840</b>	<b>100</b>	<b>1,812</b>	<b>100%</b>

Source: HMDA/LAR Data 2000 - Y-T-D 2002

The distribution of second mortgage loans among members of different income levels (as shown in the above table) indicates that upper income borrowers received the majority

(70.0% by number and 68.8% by dollars) of these loans. Middle income borrowers received the second largest portion (18.0% by number and 20.8% by dollar amount). Moderate-income members received the smallest portion (12.0% by number of loans and 10.4% by dollar amount). Given the salary range of the credit union's membership, and the type of loan (second mortgage) this distribution appears to be reasonable.

## Consumer Lending

Consumer loans granted in 2000, 2001 and Y-T-D 2002 were also sampled and reviewed for borrower income levels. WEMELCO Credit Union granted 209 consumer loans totaling \$2.3 million in 2000, 232 consumer loans totaling \$2.5 million in 2001 and 203 consumer loans totaling \$1.8 million, Y-T-D 2002. A sample of 69 loans totaling \$845,000 was taken to represent consumer lending for the current examination period.

The following table provides a breakdown of the sample of 69 consumer loans originated by applicant income level. This analysis indicates that 1.5 percent of the sample was made to low-income members, while 8.7 percent of the loan sample was made to moderate-income members. The clear majority of loans or 71.0 percent were made to upper-income borrowers.

**Consumer Loan Originations by Income of Borrower by Number**

% MEDIAN INCOME	2000		2001		Y-T-D 2002		TOTAL	
	#	%	#	%	#	%	#	%
<50%	1	4.3	0	0	0	0	1	1.5
50% - 79%	2	8.7	3	12.5	1	4.6	6	8.7
80% - 119%	2	8.7	4	16.7	7	31.8	13	18.8
120% >	18	78.3	17	70.8	14	63.6	49	71.0
<b>TOTAL</b>	<b>23</b>	<b>100%</b>	<b>24</b>	<b>100%</b>	<b>22</b>	<b>100%</b>	<b>69</b>	<b>100%</b>

Source: in-house files

The information included in the table below indicates that, by dollar amount, 1.2 percent of the consumer loans were to low-income members and 7.6 percent were to moderate-income members. Upper-income borrowers also received the majority of dollars loaned or 73 percent of total loan dollars.

**Consumer Loan Originations by Income of Borrower by Dollar Amount**

% MEDIAN INCOME	2000	2001	Y-T-D 2002	TOTAL
-----------------	------	------	------------	-------



	<b>\$(000)</b>	<b>%</b>	<b>\$(000)</b>	<b>%</b>	<b>\$(000)</b>	<b>%</b>	<b>\$(000)</b>	<b>%</b>
<50%	10	3.9	0	0.0	0	0.0	10	1.2
50% - 79%	23	8.6	33	9.9	8	3.2	64	7.6
80% - 119%	23	8.6	48	14.5	76	30.8	147	17.4
120% >	210	78.9	251	75.6	163	66.0	624	73.8
<b>TOTAL</b>	<b>266</b>	<b>100%</b>	<b>332</b>	<b>100%</b>	<b>247</b>	<b>100%</b>	<b>845</b>	<b>100%</b>

Source: in-house files

The credit union's distribution of consumer loans is well dispersed and includes all categories of different income levels of members. Upper income members received the largest segment (71.0% by number and 73.8% by dollar amount), while low and moderate income members combined received the smallest percentage (10.2% by number and 8.8% by dollar amount) of the consumer loans granted. Loans granted to middle income members represented 18.8 percent by number and 17.4 percent by dollar. The comparative income used in this analysis is Median Family Household Income for the Springfield MSA and "Non-MSA". Since consumer loans are largely granted to individuals, the comparison to median family income has the effect of somewhat skewing the distribution within the low and moderate-income categories. However, this loan distribution among members of different income levels is reasonable given the composition of the institution's membership.

In conclusion, the credit union's distribution of loans by borrower income levels both for real-estate related second mortgages and for consumer loans is reasonable. Consequently, the credit union's performance under this criterion meets the standards for satisfactory performance.

#### **4. GEOGRAPHIC DISTRIBUTION OF LOANS**

This fourth performance criterion evaluates an institution's record of addressing credit needs of the assessment area based on the geographic distribution of loans. As mentioned previously, since WEMELCO Credit Union has identified its membership as its assessment area, no evaluation of geographic based performance factors was conducted.

#### **5. FAIR LENDING POLICIES AND PRACTICES**

The credit union's small size, restricted resources and financial situation limit its ability to meet all of the requirements of the Division's Fair Lending guidelines, as outlined in Regulatory Bulletin 2.3-101. The credit union's staff training is adequate. Outreach, marketing, credit products and underwriting standards are directly affected by resources and limited product offerings. The institution has developed a second

review process in which all loans considered for denial are referred to the Credit Committee prior to issuing a notice of denial.

The credit union's marketing activity includes placing information on its credit products and services on bulletin boards located in the various offices of the WEMELCO'S plants and corporate offices. Lobby brochures are also provided in its main office. The credit union also includes statement stuffers in correspondence sent to the members. The credit union produces the newsletter "The Connection" which keeps the membership abreast of new product offerings, as well as credit information and savings incentives.

Due to the credit union's industrial nature and lack of demographic information concerning race, a minority application flow analysis was not completed.

Based on the foregoing information, the credit union meets the standards for satisfactory performance in this category.

**THE COMMONWEALTH OF MASSACHUSETTS**

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

**WEMELCO CREDIT UNIION**

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **OCTOBER 2, 2002**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

A majority of the Board of Directors/Trustees

Dated at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 20 \_\_\_\_

## PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at (Address at main office)."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that assessment area shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee, which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.